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TO RUEHC/SECSTATE WASHDC 6063  
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RUEHBK/AMEMBASSY BANGKOK 3765  
RUEHBJ/AMEMBASSY BEIJING 7039  
RUEHUL/AMEMBASSY SEOUL 8776  
RUEHGP/AMEMBASSY SINGAPORE 6943  
RUEHKO/AMEMBASSY TOKYO 8931  
RUEHML/AMEMBASSY MANILA 0101  
RUEHJA/AMEMBASSY JAKARTA 4099  
RUEHKL/AMEMBASSY KUALA LUMPUR 3779  
RUEHHI/AMEMBASSY HANOI 3348  
RUEHBY/AMEMBASSY CANBERRA 4557  
RUEHWL/AMEMBASSY WELLINGTON 1827  
RUEHHM/AMCONSUL HO CHI MINH CITY 0108  
RUEHHK/AMCONSUL HONG KONG 8285  
RUEHGH/AMCONSUL SHANGHAI 1234  
RUEHGZ/AMCONSUL GUANGZHOU 0411

UNCLAS SECTION 01 OF 03 TAIPEI 001622

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STATE PLEASE PASS USTR  
STATE FOR EAP/RSP/TC, EAP/EP  
USTR FOR ALTBACH and Stratford  
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT  
TREASURY FOR OASIA/LMOGHTADER  
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF  
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN AND NY FRB MARIA  
BOLIS

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TAGS: [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [ETRD](#) [TW](#)

SUBJECT: Trade Figures Signal Economic Improvement

#### SUMMARY

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¶1. In the first half (H1) of 2007, Taiwan's exports grew faster than imports, leading to a 36% increase in the trade surplus. Imports of capital goods in the second quarter (Q2) shifted to growth, signaling an increase in domestic investment. Higher energy prices in June drove up Taiwan's imports from oil producing countries. While Greater China (PRC and Hong Kong) remained Taiwan's largest trading partner in H1 of 2007, trade with Vietnam and India gained in relative importance. END SUMMARY.

#### Trade Surplus Broadened

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¶2. In H1 of 2007, Taiwan's trade surplus increased 36% from the same period a year ago to US\$10.5 billion, as exports continued to grow faster than imports. Taiwan's exports in the six-month period grew 7.5% from a year ago to US\$113.9 billion, while its imports rose 5.3% to US\$103.4 billion, according to statistics recently published by the Ministry of Finance.

#### Accelerating Import Growth

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¶3. Import growth accelerated from a y-o-y 3% in Q1 to 7% in Q2. The Q2 growth rate for materials and semi-finished goods, which account for three-quarters of Taiwan's total imports, rose to 8%, an indicator of growing demand for production inputs by the island's export sector. Expansion of manufacturing capacity has prompted imports of capital goods to shift from a decline of 2% in Q1 to growth of 7.6% in Q2. Capital goods accounted for 16% of Taiwan's total imports.

## Crude Oil Price Hikes

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¶4. Crude oil prices, after declining early this year, began to rise in June and exceeded US\$70 per barrel in mid-July. Consequently, Taiwan's imports from the United Arab Emirates, Saudi Arabia, and Iran in June surged 45% from a year ago to US\$1.7 billion. In the first five months, the value of crude oil imports declined 14%.

## Trade with Greater China

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¶5. Greater China is Taiwan's largest trading partner. In H1 of 2007, Greater China took 40% of Taiwan's total exports, far more than the 13.5% share for the United States, 14% for ASEAN, and 11% for the European Union. Taiwan's exports to China are principally production inputs required by Taiwan firms operating in China. Machinery and optoelectronic equipment accounted for 60% of Taiwan's total shipments to Greater China, while materials and semi-finished goods occupied another 30-35%.

¶6. Greater China replaced the United States as the second largest source of Taiwan's imports in 2005. In H1 of 2007, 14% of Taiwan's imports came from Greater China, less than the 21% from Japan but more than the 12% from the United States. Taiwan's imports from China are basically cheap consumer goods and parts/components which are re-exported after simple processing into finished goods.

¶7. Taiwan's chronic trade surplus with Greater China increased to US\$31 billion in H1 of 2007, triple Taiwan's global trade surplus of US\$10.5 billion.

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## USA Remains Major Market for Taiwan Firms

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¶8. The United States was still a major market for Taiwan companies, although the U.S. share of Taiwan's exports in H1 of 2007 declined to 13.5% from 14.6% a year earlier and from nearly 50% 20 years ago.

One main cause behind the drastic decline has been many Taiwan firms' relocation of their export bases to China. Many of them receive orders in Taiwan and ship the products directly from their factories in China.

¶9. The United States remains a major supplier of grains, beef, production inputs and production technologies to Taiwan. However, technology transfer over the past five years has reduced Taiwan's reliance on imports from the United States. Even so, Taiwan is still a major importer of U.S. corn, wheat, soybeans, and beef. Consequently, the U.S. share of Taiwan's imports in H1 of 2007 was 12%, slightly up from 11% a year ago but far less than 18% in 2000.

¶10. Taiwan enjoyed a chronic trade surplus with the United States. However, the trade surplus in H1 of 2007 dropped 44% to US\$2.8 billion from a year ago, resulting from a 19% growth in imports and a 1% decline in exports to the United States. The 19% growth in imports from the United States could be attributed to shipment of three jumbo jets, semiconductor manufacturing equipment, and chemical goods.

## Japan: Taiwan's Major Source of Imports

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¶11. In its trade with Japan, Taiwan's large chronic trade deficit declined 7.4% in H1 of 2007 to US\$14 billion. Taiwan's exports to Japan inched up 2% from a year ago to US\$8 billion. However, Taiwan's imports declined 4% to US\$22 billion because some production inputs and technologies from Japan were substituted by sources from the United States and Europe as semiconductors and optoelectronics emerged as the backbone of Taiwan's industrial sector over the past ten years. Consequently, Japan's share of Taiwan's imports in H1 of 2007 declined to 21% from 23% a year earlier. Japan's share in the mid-1990s was 30%.

## Two Emerging Trading Partners: Vietnam and India

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¶12. Taiwan enjoyed an increase in its trade surplus with Vietnam from US\$1.8 billion in 2002 to US\$4 billion in 2006.

¶13. In H1 of 2007, Taiwan's exports to Vietnam increased 28% from a year ago to US\$3 billion, while its imports from Vietnam rose 26% to US\$0.5 billion. Vietnam has become Taiwan's sixth-largest export market, rising steadily from 15th in 2000. Gasoline, diesel fuel, and other fuel represented 26% of Taiwan's total exports to Vietnam, while machinery, iron & steel, plastics, man-made fibers, and organic chemicals accounted for another 35%.

¶14. Taiwan's efforts to promote trade with India have also paid off. Over the past four years, Taiwan's exports to and imports from India both grew average of 24% per year. In H1 of 2007, Taiwan's exports to India surged 73.5% from a year ago to US\$1.1 billion, while its imports from India shot up 62% to US\$0.9 billion.

¶15. India was Taiwan's 16th export market and 12th largest source of imports. About 80% of Taiwan's exports to India in H1 of 2007 were machinery, electrical & electronic equipment, organic chemicals, plastics, and fuel. Diesel fuel accounted for 10% of Taiwan's exports to India. Meanwhile, three-quarters of Taiwan's

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imports from India were naphtha minerals, copper, organic chemicals, iron & steel, and cotton.

COMMENT

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¶16. Taiwan turned in a solid trade performance in the first half of ¶2007. The double-digit rise in export orders signals that the good news should continue throughout the rest of the year. Even though China makes up an ever-larger percentage of Taiwan's total trade, Taiwan still relies heavily on the U.S. market, even if much of what Taiwan firms sell to the U.S. is shipped from Taiwan-owned factories in China, and, increasingly, from Taiwan-owned factories in India and Vietnam.

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